

**SOUTH CAROLINA
SEA GRANT CONSORTIUM
CHARLESTON, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 1999

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 4, 2000

The Honorable James H. Hodges, Governor
and
Members of the Board of Directors
South Carolina Sea Grant Consortium
Charleston, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Sea Grant Consortium, solely to assist you in evaluating the performance of the Consortium for the fiscal year ended June 30, 1999, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of amounts collected and recorded by revenue account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations and Transaction Recording in the Accountant's Comments section of this report.

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2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Consortium, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations and Transaction Recording in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations and Transaction Recording in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

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5. We tested selected entries and monthly totals in the subsidiary records of the Consortium to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Consortium for the year ended June 30, 1999, and tested selected reconciliations of balances in the Consortium's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Consortium's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Consortium's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations and Transaction Recording in the Accountant's Comments section of this report.
7. We tested the Consortium's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1999. Our findings as a result of these procedures are presented in Reconciliations and Transaction Recording in the Accountant's Comments section of this report.
8. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the Consortium and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.
9. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the Consortium and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our finding as a result of these procedures is presented in Reconciliations and Transaction Recording in the Accountant's Comments section of this report.

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We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Consortium's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the Consortium and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

RECONCILIATIONS AND TRANSACTION RECORDING

The Comptroller General's Office records transactions into the State's accounting system (STARS) from documentation submitted by the Consortium. The agency prepares reconciliations of revenues, expenditures, and ending cash balances. We reviewed selected monthly reconciliations of balances in the Consortium's accounting system (SABAR) compared to those in STARS as reflected on the Comptroller General's reports and noted the following:

1. Someone other than the preparer did not review and approve reconciliations.
2. The preparer did not sign and date all reconciliations.
3. The Consortium performed revenue reconciliations at the major revenue subfund level rather than at the subfund and object code level.
4. The Consortium did not reconcile State General Fund expenditures.
5. The Consortium did not adequately explain variances noted during the reconciliation process.
6. At year-end the Consortium did not reconcile balances for federal accounts in SABAR to those on the Trial Balance by Subfund, Project, and GLA (CG 467) STARS report.
7. Our review of year-end reconciliations identified several discrepancies between SABAR and STARS balances. After its investigation of the differences, Consortium personnel told us the amounts recorded in STARS were accurate and accounting had recorded the transactions incorrectly into SABAR. However, our analysis of the relationship of expenditures between personal services and employer contributions balances as recorded in STARS indicated a likelihood that those amounts are incorrect.

In our tests of revenue and expenditure transactions, we also found several recording errors. Some of these were detected by accounting personnel but correcting journal entries were either not prepared, prepared and posted incorrectly, or not prepared and posted in a timely manner but months after the errors occurred. In some instances, however, the errors were never detected and corrected. We also noted that the Consortium did not record \$50,000 received from fiscal year 1998 State General Fund supplemental appropriations in SABAR but maintained a manual record of these funds.

The Consortium implemented a new accounting system, SABAR, in fiscal year 1999. We were told that the errors we found occurred because Consortium accounting personnel were unfamiliar with the new system and, therefore, unaware of how to properly record and reconcile all agency transactions in SABAR.

An effective internal control system includes control procedures to provide reasonable assurance that accounting transactions are properly prepared and reviewed by employees knowledgeable about accounting transactions, adequately documented, accurately recorded, and timely posted. Furthermore, Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures Manual (STARS Manual) requires agencies to perform monthly reconciliations of revenues, expenditures, and ending cash balances at the level of detail that will ensure that errors are detected and corrected in a timely manner. The STARS Manual requires such reconciliations be performed "on a timely basis (i.e., shortly after month-end), documented in writing ... with all supporting working papers ... signed and dated by the preparer" and independently reviewed and approved by a responsible official.

We recommend that the Consortium establish an ongoing training program to help ensure that its accountants are knowledgeable regarding the various features of its internal accounting system, the proper accounting treatment and transaction coding for all types of transactions, and the proper method of recording all transactions in both SABAR and STARS. We also recommend the Consortium implement procedures to ensure that monthly reconciliations are fully documented and properly and timely performed and reviewed to ensure errors are detected and corrected. Identified differences in balances between the agency's records and STARS should be investigated and adequately explained and adjusting

journal entries should be promptly prepared, reviewed, approved, and recorded. Both the adjusting journal entries and reconciliations should be independently reviewed by a knowledgeable and responsible supervisory employee.

MANAGEMENT'S RESPONSE

**RESPONSE TO ACCOUNTANT'S COMMENTS
S C SEA GRANT CONSORTIUM**

1. Recorded Receipts

The Consortium will perform revenue reconciliations at the minor revenue subfund level and object code level per the recommendation of the State Auditor.

2. Non-payroll Disbursements

The Consortium will institute proper control over recording of revenue and expenditure transactions by ensuring correcting journal entries are prepared and posted correctly and in a timely manner.

3. Discrepancies between SABAR (Consortium) and STARS

The Consortium will ensure that payroll transactions are recorded accurately and that the SABAR and STARS systems agree through proper reconciliations.

4. No exceptions

5. No exceptions

6. Monthly and Year-end Reconciliations

The Consortium's reconciliation variances will be noted by journal voucher number, journal entry number, cash receipt number, and voucher number as applicable. The reconciliations will be reviewed and approved by other than the preparer.

7. Year-End Reconciliations

The Consortium will ensure compliance with all appropriate financial provisions of the SC Code of Laws, Appropriations Act and other laws, rules and regulations.

8. No exceptions

9. Federal Financial Assistance

The Consortium will reconcile balances for federal accounts to Trial Balance by subfund, project, and GLA (CG 467) STARS report.

To ensure that these deficiencies do not occur again in the future, a training program will be provided to ensure accountants are knowledgeable regarding the various features of the Consortium's internal accounting system, the proper accounting treatment and transaction coding for all types of transactions, and the proper method of recording all transactions in both SABAR and STARS.